SaskGaming

Second Quarter Report
2015

For the six months ended June 30, 2015

Contents

CORPORATE OVERVIEW 3
MANAGEMENT'S DISCUSSION AND ANALYSIS 3
OUTLOOK 4
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 5
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 8

CORPORATE OVERVIEW

The Saskatchewan Gaming Corporation (SaskGaming or the Corporation) was established in 1994 as a Treasury Board Crown Corporation to operate casino gaming on behalf of the province of Saskatchewan. It currently operates Casino Regina and Casino Moose Jaw. Effective April 1, 2008, SaskGaming came under the direction of the Crown Investments Corporation of Saskatchewan (CIC). SaskGaming operates Casino Regina and Casino Moose Jaw under the regulatory authority of the Saskatchewan Liquor and Gaming Authority (SLGA).

Casino Regina, located in Regina's historic Union Station, opened to the public on January 26, 1996 and is a full-service entertainment facility offering slot machines, table games, a Show Lounge, restaurant, and on-site parking.

Casino Moose Jaw opened September 6, 2002. It offers guests table games, slot machines, food and beverage services and parking facilities. Entertainment is offered to Moose Jaw customers through a partnership with the Mae Wilson Theatre.

SaskGaming's vision is as follows:

SaskGaming is the recognized leader in providing gaming entertainment in Saskatchewan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis highlights the primary factors that impacted the operations and financial results of SaskGaming for the six month period ended June 30, 2015. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2014.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods April 1 to June 30, 2015 and January 1 to June 30, 2015 with comparative information for 2014.

	Three months ended June 30				Six months ended June 30			
(in 000s)	2015	2014	Change	%	2015	2014	Change	%
Revenue	$ 32,210	$ 32,693	$ (483)	(1.5%)	$ 62,541	$ 63,227	$ (686)	(1.1%)
Expenses	18,608	19,771	(1,163)	(5.9%)	37,155	39,395	(2,240)	(5.7%)
Income before payment to General Revenue Fund	13,602	12,922	680	5.3%	25,386	23,832	1,554	6.5%
Payment to GRF	6,801	6,461	340	5.3%	12,693	11,916	777	6.5%
Net Income	$ 6,801	$ 6,461	$ 340	5.3%	$ 12,693	$ 11,916	$ 777	6.5%

SaskGaming's income before payment to the GRF for the second quarter of 2015 was $13.6 million, an increase over the same period in 2014 of $0.7 million. Revenues decreased $0.5 million, and expenses decreased $1.2 million.

Year to date income before payment to the GRF was $25.4 million, an increase of $1.6 million. Revenues decreased $0.7 million and expenses decreased $2.2 million.

1. Revenue
   Revenue for the second quarter was $32.2 million, a decrease of $0.5 million over the same period in 2014. Year to date revenue was $62.5 million, a decrease of $0.7 million over the same period in 2014. Gaming revenues decreased $0.8 million. The gaming revenue decrease is largely due to a $0.9 million decline in slot revenues offset slightly by an increase in table revenues. Guest counts increased year to date by 0.5% from 2014. Although overall guest counts have increased, the average spend per slot guests is below 2014 levels.

2. Expenses
   Total expenses for the second quarter were $18.6 million, a decrease year over year of $1.2 million. Year to date expenses were $37.2 million, a decrease year over year of $2.2 million. The decrease is due primarily to reductions in printing, postage, and communications, labour cost variances, and reduced advertising and promotion expenses. In addition to this, depreciation is down $0.6 million due to timing of capital purchases.

OUTLOOK

The Corporation's income before payment to GRF target for 2015 is $51.9 million. At the end of the second quarter, income before payment to GRF is above budget by $0.1 million. Net revenues are below budget by $2.5 million. SaskGaming has continued to experience a mature gaming market, which include a decreased guest spend. The casino gaming market in Saskatchewan and across Canada has matured, resulting in flattening or declining revenues in most jurisdictions.

The Corporation has used strong expense management to achieve its income before payment to the GRF target through Q2. The Corporation will continue to monitor expenses closely in the second half of the year. Accordingly, SaskGaming continues to forecast a net income before payment to the GRF of $51.9 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (in 000s)	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash	$ 12,819	$ 10,343
Accounts receivable	257	257
Inventory	280	285
Prepaid expenses	1,424	588
	14,780	11,473
Property, plant and equipment	60,853	61,521
	$ 75,633	$ 72,994
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 9,778	$ 9,785
Payable to the General Revenue Fund	6,801	5,948
Dividend payable	5,189	4,802
Current portion of long-term debt	1,622	1,572
Current portion of finance lease obligation	289	275
	23,679	22,382
Long-term debt	850	1,674
Finance lease obligation	6,368	6,516
	30,897	30,572
Retained earnings	44,736	42,422
	$ 75,633	$ 72,994

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and six months ended June 30
(Unaudited)

(in 000s)	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Revenue	$ 32,210	$ 32,693	$ 62,541	$ 63,227
Operating expenses	15,451	16,215	30,804	32,230
Depreciation	1,455	1,778	2,970	3,551
Taxes	734	736	1,437	1,518
Contractual obligations	754	754	1,508	1,508
Finance expense	214	288	436	588
Income before payment to the General Revenue Fund	13,602	12,922	25,386	23,832
Payment to the General Revenue Fund	6,801	6,461	12,693	11,916
Net income	6,801	6,461	12,693	11,916
Other comprehensive income	---	---	---	---
Comprehensive income	$ 6,801	$ 6,461	$ 12,693	$ 11,916

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended June 30
(Unaudited)

(in 000s)	2015			2014		
	Retained Earnings	Equity Advance	Total	Retained Earnings	Equity Advance	Total
Balance as at January 1	$ 42,422	$ ---	$ 42,422	$ 37,442	$ 4,000	$ 41,442
Comprehensive income	12,693	---	12,693	11,916	---	11,916
Dividends	(10,379)	---	(10,379)	(10,080)	---	(10,080)
Balance as at June 30	$ 44,736	$ ---	$ 44,736	$ 39,278	$ 4,000	$ 43,278

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended June 30
(Unaudited)

(in 000s)	2015	2014
Operating activities:		
Net income	$ 12,693	$ 11,916
Adjustments for:		
Finance expense	436	588
Depreciation	2,896	3,551
Loss on sale of property, plant and equipment	74	---
Changes in non-cash working capital balances:		
Accounts receivable	---	91
Inventory	5	56
Prepaid expenses	(836)	(948)
Trade and other payables	(7)	(1,939)
Payable to the General Revenue Fund	853	3,195
	16,114	16,510
Investing activities:		
Proceeds from sale of property, plant and equipment	79	---
Purchases of property, plant and equipment	(2,381)	(509)
	(2,302)	(509)
Financing activities:		
Dividends paid	(9,992)	(6,618)
Interest paid	(436)	(588)
Repayment of short term advance	---	(3,000)
Repayment of finance lease obligation	(134)	(120)
Repayment of long-term debt	(774)	(726)
	(11,336)	(11,052)
Increase in cash	2,476	4,949
Cash, beginning of period	10,343	10,841
Cash, end of period	$ 12,819	$ 15,790

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015
(Unaudited)

1. Description of Business

The Saskatchewan Gaming Corporation (SaskGaming) is a corporation domiciled in Canada. The address of SaskGaming's registered office and principal place of business is 1880 Saskatchewan Drive, Regina, SK, S4P 0B2.

SaskGaming manages and operates Casino Regina and Casino Moose Jaw. SaskGaming was established under *The Saskatchewan Gaming Corporation Act, 1994* (Act) to provide for separation of regulatory and operational aspects of gaming. SaskGaming must operate in accordance with statutory provisions established under Section 207 of the *Criminal Code of Canada* and *The Alcohol and Gaming Regulation Act, 1997*. Regulation of SaskGaming's operations is controlled by the separately constituted Saskatchewan Liquor and Gaming Authority.

SaskGaming operates under the direction of its owner, the Crown Investments Corporation of Saskatchewan (CIC). CIC is the provincial government's holding corporation for its commercial Crown corporations. The financial results of SaskGaming are included in the consolidated financial statements of CIC.

2. Basis of Preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 27, 2015.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments which are classified as fair value through profit and loss, which are measured at fair value.

c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is SaskGaming's functional currency.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: useful lives of property, plant and equipment and the customer loyalty program.

3. Significant Accounting Policies

The accounting policies applied by SaskGaming in these condensed consolidated interim financial statements are consistent with those applied by SaskGaming in its December 31, 2014 annual financial statements.

4. Fair Value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk and remaining maturities. Fair value measurements are subjective in nature, and represent point-in-time estimates which may not reflect fair value in the future.

The methods and assumptions used to develop fair value measurements have been prioritized into three levels as per the fair value hierarchy included in IFRS. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs other than quoted prices included in Level one that are observable for the asset or liability. Level three includes inputs that are not based on observable market data.

The fair values of long term debt and finance lease obligation are estimated by discounting the expected future cash flows using the interest rate of a Government of Canada bond with similar terms, adjusted for an appropriate risk premium.

(in 000s)

			June 30, 2015		December 31, 2014	
Financial Instruments	Classification [1]	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	OFL	Level Two	$ 2,472	$ 2,571	$ 3,246	$ 3,400
Finance Lease obligation	OFL	Level Two	6,657	8,175	6,791	8,283

[1] Classification:
OFL - Other financial liabilities